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SUBJECT: NORTH KOREA ECONOMIC BRIEFING - JUNE 2009

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Domestic Economy

DPRK Intensifies H1N1 Flu Preventive Measures

12. (SBU) Korea Central News Agency (KCNA) reported on May 6 that DPRK authorities have recently adopted measures to protect the North Korean public from the H1N1 flu. Pak Myong-su, vice chairman of North Korea's State Emergency Anti-Epidemic Commission, said that, while there had been no outbreak in the DPRK, foreigners entering the DPRK are tested at airports and other points of entry. Those suspected to have been infected with the H1N1 virus are quarantined and put under medical surveillance until the presence of the virus can be confirmed. The measures also include:

- Steps are being taken to stock up on antiviral medicines to cope with a possible outbreak of the H1N1 flu;
- Screening of pork and pork products is being strengthened;
- Researchers are being pushed to develop a vaccine;
- North Korean media are reporting on international outbreaks of the H1N1 flu;
- North Korean medical teams are providing medical check-ups to

citizens in all provinces and are disseminating hygienic information and common sense ways to avoid contracting the flu;

-- A system to better diagnose the disease and to better report potential outbreaks of the virus is being set up nationwide.

DPRK Bond Prices Nosedive Following Launch of DPRK Rocket

13. (SBU) According to an April 28 report on Radio Free Asia (RFA), the price of North Korean bonds plunged 50 percent following the North Korean April 5 rocket launch. The price of North Korean bonds slid from 25 cents on the dollar in July of last year to 12 cents in March and to 6 cents in April. Stuart Culverhouse, chief economist at the London-based brokerage firm Exotix, told RFA that the decline in North Korean bond prices could be attributed to the North's nuclear threats. He went on to say that it was unlikely that the price of North Korean bonds would recover anytime in the near future. The DPRK has been issuing bonds since 1994.

DPRK Opens Limited Internet Cell Phone Service

14. (SBU) Uriminzokkiri, North Korea's state Website (www.uriminzokkiri.com), reported on May 21 that the DPRK had begun offering limited internet service to mobile phone users and that it had earlier established an advanced mobile phone network with the help of Orascom, the Egyptian telecommunications company which operates the DPRK's mobile phone system. The service allows North Korean mobile phone users to receive reports from the DPRK's

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state-run news agency as well as local Pyongyang news.

Foreign Aid

15. (SBU) WHO Provides Tamiflu to the DPRK RFA reported on May 7 that the World Health Organization (WHO) announced that it had decided to provide Tamiflu, an antiviral medicine, to the DPRK to allow the country to better treat those infected with the H1N1 virus. The report indicated that the Tamiflu had been shipped from sites in Switzerland, the United States, and the United Arab Emirates on May 5, but did not specify how much of the antiviral medicine had been shipped. WHO spokesperson Steven Lauwer said in an interview that there has been no reported outbreak of the H1N1 virus in the DPRK.

UNDP Officials Visit DPRK to Discuss Suspended Projects

16. (SBU) On May 22, RFA reported that four UNDP working-level officials had visited North Korea on May 19 to discuss the reopening of its Pyongyang office and the resumption of projects that had been suspended in 2007. The report said the UNDP Pyongyang office was expected to reopen in June of 2009 and has already begun recruiting local staff. UNDP projects include the restoration of arable land and projects aimed at encouraging the DPRK to adopt economic reforms -- projects that were begun in 1981 but suspended in 2007.

ROKG Shuts Down DPRK Humanitarian Aid Bureau

17. (SBU) The Ministry of Unification (MOU) stated in a briefing on May 12 that the ROK Cabinet had approved the MOU's plan to shut down its Humanitarian Aid Bureau, a bureau that had been set up in 1996 to direct ROK humanitarian aid to the DPRK, to arrange reunions of families separated following the division of Korea, and to assist in the resettlement of North Korean defectors. The MOU stated that, "The restructuring aims to strengthen the Ministry's long-term unification policy and intelligence analysis as well as merge overlapping low-level units." The statement went on to say that the closing of the bureau would result in no functional changes. Tense inter-Korean relations have considerably reduced the bureau's effectiveness. The MOU has also requested that South Korean civic

groups refrain from visiting the DPRK following the April 5 rocket launch.

Foreign Trade and Investment

China Accounts for Half of DPRK's
Foreign Trade in 2008

¶8. (SBU) According to preliminary figures released by the Korea Trade and Investment Promotion Agency (KOTRA) on May 18, the DPRK's total international trade in 2008 amounted to USD 5.64 billion, a 19 percent increase from 2007 (and the highest level since 1990). DPRK exports were estimated at USD 2.06 billion, up 23 percent, while its imports were estimated at USD 3.58 billion, an increase of 17 percent from a year earlier. The DPRK's trade with China totaled USD 2.78 billion, a 41 percent increase over 2007. North Korean exports to China were believed to be worth USD 750 million. The DPRK's imports from China amounted to USD 2.03 billion. In 2008, China's share of total North Korean trade expanded to 49.3 percent, up from 42 percent in 2007. The ROK's share of total North Korean trade fell in 2008 to USD 1.82 billion or 32 percent, down from 38 percent a year earlier. KOTRA stated that, "It appears that aside from China, North Korea's foreign trade with other countries showed no significant change." Detailed North Korean trade figures for 2008 are expected to be made publicly available in July.

Pyongyang International Trade Fair Held

¶9. (SBU) KCNA reported on May 15 that the twelfth Pyongyang International Spring Trade Fair was held May 11-14. KCNA claimed

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that more than 200 companies from over 19 countries participated in the fair and displayed more than 15,700 goods. These countries included: China, Russia, Germany, Malaysia, Syria, Sweden, Singapore, Vietnam and Thailand. China dominated with over 100 companies participating in the fair. Products on display at the fair included: machine tools, electronic equipment, petrochemicals, medicines, daily commodities, and foodstuffs. Vehicles assembled by Peyonghwa Motors, a South Korean auto maker operating in Nampo, North Korea, were also exhibited at the fair. The annual Pyongyang International Spring Trade Fair is organized by the (North) Korea International Exhibition Corporation. Wang Jinzhen, vice chairman of the China Council for the Promotion of International Trade, said the event's "China Pavilion Day" reception for Chinese companies on May 12 would further deepen Sino-DPRK cooperation in fields such as processing-on-commission trade and natural resources development.

DPRK and China Agree to Further Scientific Cooperation

¶10. (SBU) KCNA reported on May 7 that China and the DPRK held the forty-third Joint Committee Meeting for China-DPRK Scientific and Technological Cooperation and agreed to work together on joint projects in architecture, water conservation, and agriculture. Ri Song-bok, vice president of the DPRK's State Academy of Sciences, and Cao Jianlin, Chinese vice minister of Science and Technology were present at the signing of the agreement. The Chinese delegation reportedly presented 500,000 Chinese yuan (USD 72,000) worth of office equipment, computers, and printers as gifts to the North Korean National Academy of Science. The meeting is held annually to enhance collaboration in science and technology between the two countries.

Russia-DPRK-China Rail Link Planned to Open in 2009

¶11. (SBU) RIA Novosti, a Russian online news provider, reported on April 22 that a railway linking the Russian city of Khasan and the Chinese city of Tumen to North Korea would be opened by the end of ¶2009. This announcement follows the signing of a deal between the First Air Cargo Company, a subsidiary of Russian rail monopoly RZD,

and the Chinese Yanbian Haihua Imports and Exports Trading Company. The article said that the DPRK is expected to join the agreement soon. According to a representative for the Russian company, "The Chinese side has already delivered fuel, a locomotive and variable wheel sets, so that Russian rail carriages can travel along the narrower North Korean track." Under current conditions, around 50-60 railcars a day could use the rail link. According to the report, however, the Chinese company has said that it is willing to rebuild the 120 kilometers of the North Korean section of the rail line and that doing so would increase its cargo capacity by ten times.

Inter-Korean Economic Cooperation

Inter-Korean Cooperation Fund Spent Only 1.8 Percent
of 2009 Appropriation in First Quarter of 2009

¶12. (SBU) On May 29 the MOU released figures indicating that only 1.8 percent, or 27 billion KRW (USD 20 million), of the 1.51 trillion KRW (USD 1.13 billion) 2009 Inter-Korean Cooperation Fund (IKCF) had been spent. According to the report, the ROKG had provided 10.2 billion KRW (USD 7.6 million) in loans to various inter-Korean exchange programs in the first quarter of 2009. The ROKG provided a total of 16.8 billion KRW (USD 12.5 million) in financial support to the IKCF in the first quarter of this year for inter-Korean cooperation projects such as humanitarian aid programs run by South Korean civic groups. An MOU analyst has attributed the decline of IKCF expenditures to the fact that the DPRK had not officially requested funding. In 2005 the ROKG appropriated 674.5 billion KRW (USD 658.4 million) for the IKCF. In 2006 this figure was 471 billion KRW (USD 493 million); in 2007 it was 716 billion KRW (USD 770.3 million); and in 2008 it was 231 billion KRW (USD 210 million).

Inter-Korean Trade Drops in April

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¶13. (SBU) According to MOU figures released on May 22, inter-Korean trade fell to USD 106 million in April, down 27 percent from the same month last year. South Korean exports to North Korea fell to USD 41 million in April, a 43 percent decrease from 2008. Major South Korean exports to the North included textiles and machinery parts used primarily by Kaesong Industrial Complex (KIC) firms. South Korean imports from the DPRK contracted by 11 percent in April compared to 2008. South Korea imported a total of USD 65 million dollars worth of goods, consisting mainly of agricultural products and garments produced by KIC firms. This decline in inter-Korean trade can be attributed to the ongoing political tensions between the two Koreas. Due to frigid inter-Korean relations, non-commercial transactions such as humanitarian aid from the ROKG and South Korean civic groups fell to USD 1.7 million, an 85 percent drop over the same month in 2008.

Inter-Korean Trade in April 2009
(Source: ROK Ministry of Unification, Unit: USD 1,000)

Commercial Transactions

	South Exports To North	South Imports from North	Total
General Trading	848(-78)	14,114(-55)	14,962(-57)
Processing-on Commission (POC)	8,403(-11)	20,472(14)	28,875(6)
KIC Project	24,832(-23)	29,586(32)	58,009(-2)
Mt.Kumgang Tourism Project	282(-97)	141(-82)	423(-96)

Other Economic Projects	1,191(-7)	418(-27)	1,609(-13)
Light Industry Cooperation	0	0	0
Subtotal	39,156(-35)	64,722(-11)	103,878(-22)

Non-Commercial Transactions

	South Exports To North	South Imports from North	Total
NGO Aid	1,686(-61)	0	1,686(-61)
Government Aid	0	0	0
Social,Cultural Projects	0	0	0
Energy Aid (HFO)	0	0	0
Subtotal	1,686(-61)	0	1,686(-61)
TOTAL	40,842(-43)	64,722(-11)	105,564(-27)

Note: Figures in parenthesis indicate the comparison from April 2008

ROKG Improves Insurance Benefits for KIC Firms

¶14. (SBU) On May 22 the ROKG announced that it will increase the maximum insurance payouts given to South Korean firms operating in KIC. This announcement follows the DPRK's decision to cancel all contracts it had signed with the ROKG and is seen as an effort to reassure nervous South Korean companies. According to an MOU statement, the government will raise maximum compensation payment levels for "economic cooperation insurance" from 5 billion won (USD 4 million) to 7 billion won (USD 5.6 million). This insurance

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covers the facility investments of KIC companies in the event of an abrupt shutdown of the KIC due to political reasons. The MOU also plans to amend the insurance regulations to allow South Korean firms to file a claim a month after the closing of KIC. Under current regulations, the South Korean firms must wait three months after an abrupt KIC shutdown before filing a claim.

5,000 DPRK Workers at KIC Granted Paid Leave Due to Reduced Workload

¶15. (SBU) The Herald Economic Daily quoted representatives of the KIC Firms Association and a representative of the Inter-Korean Economic Cooperation Solidarity, a ROK-based civic group, as saying that on May 21 around 5,000 North Korean KIC workers had been granted paid leave due to reduced workloads following the April 21 inter-Korean working-level talks. These talks made international headlines when the delegation from the DPRK unilaterally demanded, among other things, higher wages for DPRK workers. These demands increased the riskiness of business operations of KIC and subsequently KIC firms saw both domestic and international orders decrease. Those North Korean workers on paid leave are believed to be receiving USD 50 a month, 70 percent of their regular monthly wages. 30 of the firms that set up shop in KIC after July of 2008 have been having difficulty securing North Korean workers and have been running at less than full capacity.

ROK State Firms May Suffer Due to Inter-Korean Tensions

¶16. (SBU) Representative from the MOU and state-run firms operating

in the DPRK warned on May 19 that the Korea Electric Corporation (KEPCO) and Korea Resources Corporation (KORES) may suffer huge losses due to the effect of inter-Korean tensions on their investment in the DPRK. In 2007, KEPCO spent 35 billion won (USD 37.7 million) to build a 100,000 kilowatt substation to provide power to South Korean factories operating in KIC. KEPCO has also been forced to pay for two unfinished light water reactors after construction on the USD 830 million projects was halted in 2006. The company paid USD 9.12 million in fees in 2007 and expects to pay USD 4 million every year until 2010. KORES, on the other hand, has invested USD 12 million in developing a graphite mine in the southwestern part of the DPRK. Due to tense inter-Korean relations, KORES has not been able to ship graphite to the South since it shipped 500 tons in 2007.

STEPHENS